

K-STATE RESEARCH AND EXTENSION, LEAVENWORTH COUNTY

FINANCIAL STATEMENT
(with Independent Auditors' Report thereon)

For the Year Ended December 31, 2012

K-STATE RESEARCH AND EXTENSION, LEAVENWORTH COUNTY

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INDEPENDENT AUDITORS' REPORT

To the Council Members
K-State Research and Extension, Leavenworth County
Leavenworth, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of K-State Research and Extension, Leavenworth County (the Extension), as of and for the year ended December 31, 2012 and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Note 1 of the financial statement, the financial statement is prepared by the Extension to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Extension as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the Extension as of December 31, 2012, and the aggregate cash receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

Report on Regulatory-Required Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 2012 fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures - actual and budget, and the individual fund schedule of regulatory basis receipts and expenditures - actual and budget, are presented for analysis and are not a required part of the 2012 basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2012 basic financial statement. The 2012 information has been subjected to the auditing procedures applied in the audit of the 2012 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2012 basic financial statement or to the 2012 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2012 basic financial statement as a whole, on the basis of accounting described in Note 1.

The 2011 actual column presented in the individual fund schedule of regulatory basis receipts and expenditures - actual and budget is also presented for comparative analysis and is not a required part of the 2011 basic financial statement upon which we rendered an unqualified opinion on May 7, 2012. The 2011 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration, Office of Management Analysis and Standards at the following link <http://da.ks.gov/ar/muniserv/>. Such 2011 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2011 basic financial statement. The 2011 comparative information has been subjected to the auditing procedures applied in the audit of the 2011 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2011 basic financial statement or to the 2011 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2011 comparative information is fairly stated in all material respects in relation to the 2011 basic financial statement as a whole, on the basis of accounting described in Note 1.

Kramer & Associates CPAs, L.L.C.

Kramer & Associates CPAs, LLC
Leavenworth, Kansas
June 3, 2013

K-STATE RESEARCH AND EXTENSION, LEAVENWORTH COUNTY
SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH
REGULATORY BASIS
For the Year Ended December 31, 2012

Funds	Beginning unencumbered cash balance	Prior year canceled encumbrances	Receipts	Expenditures	Ending unencumbered cash balance	Add encumbrances and accounts payable	Ending cash balance
Governmental type funds:							
General fund	<u>\$ 204,604</u>	<u>\$ -</u>	<u>\$ 292,761</u>	<u>\$ 318,505</u>	<u>\$ 178,860</u>	<u>\$ -</u>	<u>\$ 178,860</u>
Total reporting entity	<u><u>\$ 204,604</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 292,761</u></u>	<u><u>\$ 318,505</u></u>	<u><u>\$ 178,860</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 178,860</u></u>

Composition of cash:

Checking	\$ 103,597
Savings	<u>75,263</u>
Total reporting entity	<u><u>\$ 178,860</u></u>

The notes to the financial statement are an integral part of this statement.

K-STATE RESEARCH AND EXTENSION, LEAVENWORTH COUNTY
NOTES TO THE FINANCIAL STATEMENT
For the year ended December 31, 2012

1. Summary of significant accounting policies

a. Reporting entity

K-State Research and Extension, Leavenworth County (the Extension), in cooperation with Kansas State University, provides technical assistance, information and education that improves family, farm, and community life. The Extension is governed by a nine-member Executive Board elected by the 24 publicly elected members of the Leavenworth County Extension Council. The Extension is a separate legal entity from Leavenworth County and management has determined that the Extension is a related municipal entity of Leavenworth County, Kansas.

b. Basis of accounting

1. Regulatory basis of accounting and departure from accounting principles generally accepted in the United States of America

The Kansas Municipal Audit and Accounting Guide (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The Extension has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the Extension to use the regulatory basis of accounting.

b. Regulatory basis fund types

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following type of fund comprises the financial activities of the Extension for the year ended December 31, 2012:

1. Governmental funds

- a. General fund - the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

1. Summary of significant accounting policies (continued)

c. Cash and investments

Cash consists of checking and savings accounts.

Cash balances in all funds are considered in determining the amount to be invested and further, unless specifically designated, all investment income is credited to the general fund.

d. Inventories and prepaid expenses

Inventories and prepaid expenses which benefit future periods are recorded as an expenditure during the year of purchase, as required by state statutes.

e. Ad Valorem tax revenue

The determination of assessed valuation and the collection of property taxes for all political subdivisions in the State of Kansas are the responsibility of the various Counties. The County Appraiser annually determines assessed valuation and the County Clerk spreads the annual assessment on the tax rolls. In accordance with Kansas statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. One-half of the property taxes are due December 20th, prior to the fiscal year for which they are budgeted, and the second half is due May 10th. The Extension draws available funds from the County at designated times throughout the year.

2. Stewardship, compliance, and accountability

a. Budgetary information

The budget for the Extension is submitted to and becomes part of the budget for Leavenworth County, Kansas. All statutory requirements for publication, public hearings and adoption of the final budget are accomplished for the Extension as part of the budget process of the County. The Extension interlocal is exempt from the budget law (K.S.A. 79-2935).

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least 10 days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for the year under audit.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison schedules are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

2. Stewardship, compliance, and accountability (continued)

a. Budgetary information (continued)

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the Extension for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

Annual budgets are adopted by the Executive Board and are approved by the Leavenworth County Commission. Original appropriations are modified as necessary and all significant changes are approved by the Executive Board.

b. Compliance with Kansas Statutes

Management is not aware of any statutory violations for the period covered by the audit.

3. Deposits and investments

As of December 31, 2012, the Extension had no investments.

K.S.A. 9-1401 establishes the depositories which may be used by the Extension. The statute requires banks eligible to hold the Extension's funds have a main or branch bank in the county in which the Extension is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the bank to pledge securities for deposits in excess of FDIC coverage. The Extension has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Extension's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Extension has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the Extension may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk - deposits. Custodial credit risk is the risk that in the event of a bank failure, the Extension's deposits may not be returned to it. State statutes require the Extension's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2012.

3. Deposits and investments (continued)

At December 31, 2012, the Extension's carrying amount of deposits was \$178,860 and the bank balance was \$196,569. The bank balance was held by one bank resulting in a concentration of credit risk. The total bank balance was covered by federal depository insurance.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Extension will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

4. Operating leases

The Extension entered into a lease agreement for its office facility on March 1, 2010. Terms of the lease included monthly payments of \$300 for two years. The lease was automatically renewed for another two years in May 2011 and will expire in February 2014. During 2012, rental expense under this lease agreement was \$3,600.

- a. Future minimum rental payments required under the operating leases as of December 31, 2012 are as follows:

2013	<u>\$3,300</u>
Total	<u>\$3,300</u>

5. Risk management

The K-State Research and Extension, Leavenworth County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Extension carries commercial insurance. Settlements of claims did not exceed coverage in the year ended December 31, 2012.

6. Educational receipts and expenditures

Cash receipts and expenditures in this category represent fees collected for specific services which require special equipment or personnel such as soil testing services and other educational services. None of these amounts collected represent tax monies.

7. Defined benefit plan

a. Plan description

The Extension participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by Kansas law. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603-3869) or by calling 1-888-275-5737.

b. Funding policy

K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 4% of covered salary for Tier 1 members and 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. Kansas law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve bases. Kansas law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for calendar year 2012 was 8.34% and for calendar year 2011 was 7.74%.

The Extension's employer contributions to KPERS for the years ending December 31, 2012, 2011, and 2010, were \$3,478, \$2,173, and \$2,370, respectively, equal to the required contributions for each year as set forth by the legislature.

8. Other post employment benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Extension makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the Extension under this program.

9. Compensated absences

All regular employees are eligible for annual leave benefits in varying annual amounts depending upon years of service. Employees are allowed to accumulate and carry forward a maximum amount of annual leave ranging from 144 to 240 hours depending on their years of service. Eligible part time employees receive pro-rated annual leave. Annual leave is payable upon termination of employment, not to exceed the maximum accumulation.

Sick leave is accumulated to full time employees at the rate of 8 hours per month. Eligible part time employees working more than 1,040 hours per year accumulate sick leave on a pro-rated basis. Twenty percent of accumulated sick leave is payable upon termination of employment. Retiring employees who have completed at least eight years of service and have accumulated 800 hours or more of sick leave will be compensated for a portion of that accumulation, depending on their years of service.

The Extension's policy is to recognize the costs of compensated absences when actually paid to employees.

**REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION**

K-STATE RESEARCH AND EXTENSION, LEAVENWORTH COUNTY
SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
Regulatory Basis
For the Year Ended December 31, 2012

Funds	Original budget	Adjustment for qualifying budget credits	Total budget for comparison	Expenditures chargeable to current year	Variance - over (under)
Governmental type funds:					
General fund	\$ 408,200	\$ -	\$ 408,200	\$ 318,505	\$ (89,695)

K-STATE RESEARCH AND EXTENSION, LEAVENWORTH COUNTY
 GENERAL FUND*
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 REGULATORY BASIS

For the Year Ended December 31, 2012

(with comparative actual totals for the prior year ended December 31, 2011)

		Current year		
	Prior year actual	Actual	Budget	Variance - over (under)
Cash receipts:				
Appropriations - County	\$ 226,287	\$ 226,287	\$ 226,287	\$ -
Kansas State University				
Salaries paid directly to agents	49,426	48,785	49,426	(641)
Educational service fees	33,922	11,861	90,000	(78,139)
Interest and other income	6,164	5,828	-	5,828
Total cash receipts	315,799	292,761	\$ 365,713	\$ (72,952)
Expenditures subject to budget:				
Salaries				
Paid by Council	126,650	130,503	\$ 132,874	\$ (2,371)
Paid by Kansas State University	49,426	48,785	49,426	(641)
Payroll taxes and benefits	37,697	58,006	63,000	(4,994)
Printing, audit, and bond liability	6,588	9,696	7,500	2,196
Telephone	4,793	4,827	4,900	(73)
Rent, heat, and lights	9,600	9,935	16,000	(6,065)
Supplies, stationary, and postage	8,809	8,470	10,500	(2,030)
Equipment - auto	8,849	16,453	6,000	10,453
Miscellaneous	6,748	7,045	-	7,045
Travel	8,387	8,038	12,000	(3,962)
Subsistence	1,713	2,976	2,000	976
Educational services	33,822	13,771	104,000	(90,229)
Total expenditures subject to budget	303,082	318,505	\$ 408,200	\$ (89,695)
Receipts over (under) expenditures	12,717	(25,744)		
Unencumbered cash, beginning of year	191,887	204,604		
Unencumbered cash, end of year	\$ 204,604	\$ 178,860		

* This fund is not statutorily required to be budgeted. See Note 2a.